

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /102 W

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R 131254Z JAN 76

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 5099

INFO AMEMBASSY ABU DHABI

AMEMBASSY BAGHDAD

AMEMBASSYDOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

C O N F I D E N T I A L TEHRAN 0325

EO 11652: GDS

TAGS: ENRG, IR

SUB: NIOC/CONSORTIUM RELATIONS

REF: 75 TEHRAN 11660

1. CONSORTIUM MEMBERS DELEGATION CONSISTING OF SUTCLIFFE OF BP, KRUGER OF EXXON, RECORD OF IRICON, AND IOP GENERAL MANAGER WARREN GLOSS CALLED ON AMBASSADOR AFTERNOON OF JANUARY 11 TO BRIEF HIM ON THEIR JAN 10-11 CONVERSATIONS WITH NIOC. MEMBERS' REPRESENTATIVES, ON SUBJECT UNDERLIFTING/OVERPRICING OF IRANIAN HEAVY, SAID NIOC HAS ACCEPTED IN PRINCIPLE NEED FOR CUT IN PRICE OF HEAVY CRUDE AND SAID THEY WILL DETERMINE SIZE OF CUT BY LOOKING AT "HISTORIC DIFFERENTIALS" BETWEEN PRICES OF IRANIAN HEAVY AND THOSE OF KUWAIT CRUDE, ARAB MEDIUM, ETC. NIOC OFFICIALS MENTIONED POSSIBLE DECREASE OF A FEW CENTS (WHEN AMERICAN MEMBERS ARE PRESENT, CONSORTIUM REPS WILL NOT GIVE US SPECIFIC FIGURES)

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AND ASKED IF THAT WOULD BE ENOUGH TO STIMULATE LIFTINGS.

MEMBERS REPLIED THAT IT WOULD NOT BE.

2. NIOC ANSWERED MEMBERS' EARLIER PROPOSAL FOR NEW RELATIONSHIP (REFTEL) WITH COUNTER-PROPOSAL, CONSISTING ESSENTIALLY OF FOLLOWING POINTS: (A) PRESENT SERVICE ARRANGEMENTS TO CONTINUE WITH SOME CHANGE IN STRUCTURE, I.E., NIOC TO BECOME OWNER OF OSCO. NIOC WOULD PAY COSTS OR LITTLE MORE FOR SERVICES. (B) NIOC INSISTED THAT MEMBERS SHOULD CONTINUE TO PAY SHARE OF CAPITAL EXPENDITURES. (C) NIOC TO CONCLUDE INDIVIDUAL CRUDE SALE CONTRACTS, EACH WITH A SPECIFIED LEVEL OF MINIMUM OFFTAKE, COMPANY BY COMPANY. (D) NIOC TO SET PRICES IN ACCORDANCE WITH OPEC DECISIONS, AND DIFFERENTIALS WITH EYE TO MARKET CONDITIONS, AND COMPANIES TO GET SMALL DISCOUNT OFF THIS PRICE. NIOC MENTIONED PRESENT MARGIN OF 22CENTS BARREL "AS EXAMPLE."

3. BORROWING LEAF FROM AMOUZEGAR'S BOOK, MEMBERS REPLIED THAT THIS COUNTER-PROPOSAL IS UTTERLY IMPOSSIBLE, AND EMPHASIZED "NEED FOR FLEXIBILITY." THEY COULD NOT TIE THEMSELVES TO SPECIFIC VOLUMES OF CRUDE, PARTICULARLY AT NIOC-DETERMINED PRICES. THIS ESPECIALLY TRUE IN VIEW OF NIOC PERFORMANCE ON PRICES OVER LAST TWELVE MONTHS. NIOC REPORTEDLY TAKEN ABACK BY VEHEMENCE OF MEMBERS' REACTION ON THIS POINT. NIOC DID HOLD OUT VAGUE PROMISE OF "SOME RELIEF" ON MEMBERS' ABADAN REFINERY PROBLEMS, BUT NIOC'S FIGURES ON AMOUNT OF RELIEF NEEDED WERE FROM MEMBERS POINT OF VIEW TOTALLY INADEQUATE.

4. FYI: ABADAN REFINERY PROBLEMS CONCERN FACT THAT NIOC "SKIMS" ALMOST ALL OF LIGHTER, MORE VALUABLE PRODUCTS FROM ABADAN FOR DOMESTIC CONSUMPTION, LEAVING MEMBERS THE HEAVIER, LESS MARKETABLE PRODUCTS, MAINLY FUEL OIL FOR BUNKERS. MEMBERS MUST PAY FOR THESE PRODUCTS ON BASIS OF HYPOTHETICAL QUANTITY OF A HYPOTHETICAL CRUDE OIL, CALLED "CRUDE EQUIVALENT OF PRODUCT EXPORTS" PLUS PROCESSING FEES, PLUS A MINIMUM PROCESSING MARKUP OF 5 PERCENT ON THE POSTING OF THE HYPOTHETICAL CRUDE. SINCE (A) HYPOTHETICAL CRUDE IS VERY HEAVY, (B) ONLY 1.5 CENTS PER TENTH OF A DEGREE API IS SUBTRACTED FROM POSTING TO ADJUST POSTING FOR THE HEAVIER (HYPOTHETICAL) CRUDE AND (C) MARKET VALUE OF HEAVY PRODUCTS IS VERY LOW, MEMBERS HAVE FOR MORE THAN A YEAR BEEN LOSING ON EVERY BARREL THEY TAKE FROM ABADAN. THEY ESTIMATE LOSSES NOW RUNNING OVER \$1/BARREL. PURCHASE
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AGREEMENT OF 1973, HOWEVER, REQUIRES MEMBERS TO TAKE AT LEAST 285,000 B/D IN PRODUCTS FROM ABADAN, OR TO PAY PROCESSING FEES ON THE SHORTFALL. THUS UNDER TERMS OF 1973 AGREEMENT, MEMBERS ARE TRAPPED. END FYI

5. MEMBERS LEFT AMBASSADOR FOR A FINAL MEETING WITH PARVIZ NIMA OF NIOC. MIG HAD TOLD THEM IN EARLIER MEETING THAT HE "HAD INSTRUCTIONS NOT TO HELP OUT ANY MORE" ON PROVISION OF

MEMBERS SHARE OF CAPITAL. (THIS REFERS TO PREVIOUSLY REPORTED AGREEMENTS BY NIOC TO PROVIDE MEMBERS' SHARE OF CAPITAL FROM JUNE-DECEMBER 1975. THERE IS NO SUCH AGREEMENT FROM THIS MONTH ONHS AND MEMBERS ARE OBLIGATED TO PROVIDE 40 PERCENT OF CAPITAL REQUESTED BY OSCO ON JAN 15.) MEMBERS REPLIED TO MINA THAT THEY COULD NOT CONTRIBUTE THEIR SHARE AND ASKED HIM IF TOP EXECUTIVES OF COMPANIES COULD DISCUSS PROBLEM WITH SHAH. IN FINAL MEETING WITH MINA, WITH OBVIOUS RELIEF AT BEING ABLE TO KICK SOME PROBLEMS UPSTAIRS, TOLD MEMBERS SHAH WOULD SEE CHIEF EXECUTIVES SUNDAY MORNING, JAN 18. CONSORTIUM REPS TELL US STEEL OF BP AND BRANVILLE OF TEXACO ARE COMING TO THIS AUDIENCE.

6. IN MEETING WITH KRUGER, SUTCLIFFE, ET AL, AMBASSADOR WARNED THEM THAT THEIR CHIEF EXECUTIVES SHOULD NOT COME WITH EXPECTATIONS OF FRIENDLY, SMILING INFORMALITY IN MEETING WITH SHAH, BECAUSE HE IS EXTREMELY CONCERNED AND UPSET ON SUBJECT OF LOW LIFTINGS. MEMBERS COMMENTED THAT AT BEGINNING OF THEIR MEETING WITH NIOC, EGHBAL HAD DESCRIBED SHAH AS "FURIOUS" ON THIS SUBJECT. FOLLOWING TABLES INDICATE (TOGETHER WITH OUR EARLIER STATISTICAL REPORTING) CONTINUING DEPRESSED EXPORTS OF IRANIAN HEAVY:

OIL EXPORTS BY CONSORTIUM MEMBERS (MBD) FOR WEEKS ENDING:

	DEC 22	DEC 29	JAN 5
LIGHT CRUDE	2,223	2,290	2,371
HEAVY CRUDE	961	974	651
CRUDE EQUIVALENT			
OF PRODUCTS	246	242	218
TOTAL	3,430	3,505	3,240.

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